

Message Text

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ACTION ARA-20

INFO OCT-01 ADP-00 AGR-03 AID-07 CIAE-00 COME-00 EB-05

FRB-01 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-01 OPIC-01

CIEP-01 LAB-02 SIL-01 OMB-01 NSC-04 SS-15 STR-04

CEA-01 PRS-01 RSR-01 /081 W
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R 021631Z AUG 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 598

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E.O. 11652: N/A

TAGS: EFIN, BL

SUBJ: OFFICIAL PREOCCUPATION WITH APPAARENT INTERNAL PRICE
INCREASES.

REFS: A-132: A-157.

1. IN THE LAST THREE OR FOUR DAYS, THE NEWSPAPERS AS WELL AS THE GOB HAVE EXPRESSED INCREASING CONCERN OVER PRICE RISES, PARTICULARLY FOR FOODS ITEMS, IN THE PRINCIPAL MARKETS OF LA PAZ. ADDITIONALLY, COMMODITY SCARCITIES HAVE APPEARED, GIVING RISE TO OUTCRIES OF SPECULATION. ON JULY 30, THE GOB ANNOUNCED THE CREATION OF A NEW PRICE CONTROL COMMISSION FORMED BY THE NATIONAL POLICE, THE MINISTRIES OF INTERIOR, INDUSTRY AND COMMERCE, INFORMATION, AND THE MAYOR OF LA PAZ. THE NEWSPAPERS REPORTED THAT THE COMMISSION HELD ITS FIRST MEETING JULY 31 TO MAP STRATEGY TO COMBAT BOTH UNSANCTIONED PRICE RISES AND SPECULATION. AS REPORTED THOSE APPREHENDED IN THESE ACTIVITIES COULD FACE PRISON SENTENCES, FINES, CLOSURE OF THEIR BUSINESS, OR OTHER PUNISHMENT. (PRESIDENT BANZER MENTIONED, INTER ALIA, "SHOOTING".)

2. PREVIOUSLY, THE GOB, THROUGH VARIOUS MECHANISMS. HAS ATTEMPTED TO ENFORCE, WITH VARYING DEGREES OF SUCCESS, A PRICE CONTROL SYTEM
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INSTITUTED AT DEVALUATION. IN EARLY APRIL, A SIMILAR OUTBURST OF

PRICE INCREASES AND COMMODITY SCARCITIES DEVELOPED WHICH THE GOB, THROUGH CONCERTED POLICE ACTION, WAS ABLE TO CONTROL, ALTHOUGH PRICES DID TEND UPWARD THEREAFTER. NOW, WITH THE RECENT SPATE OF DEVALUATION RUMORS (A-157) AND DESPITE PRESIDENT BANZER'S DECLARATION THAT NO DEVALUATION WILL TAKE PLACE, THE MARKET APPEARS TO FEEL THAT FUTURE EVENTS WILL BE CONTRARY.

3. COMMENT: EMBASS'S FOOD-INDEX SURVEY (82 ITEMS) SHOWS NO RECENT APPRECIABLE PRICE INCREASES THROUGH JULY 27 (A-132) AND THE NATIONAL INSTITUTE OF STATISTICS COST-OF-LIVING SURVEY FOR LA PAZ REPORTEDLY ALSO SHOWS VERY SMALL GAINS. HOWEVER, SINCE JULY 25 THE GOB HAS BEGUN PAYMENT OF THE PUBLIC SECTOR'S FOURTEENTH-MONTH SALARY WHICH IS EXPANDING LIQUIDITY IN THE HANDS OF THE PUBLIC. THIS SPURT IN LIQUIDITY MAY BE CAUSING A BUYING SPREE IN RESPONSE TO FEARS OF FUTURE PRICE RISES, THE BUDGET DEFICIT AND DEVALUATION.

4. IF APPARENT RECENT SPURT IN PRICES AND PRODUCT SCARCITIES ARE REAL, THEN IT PROBABLY REFLECTS BOTH TEMPORARY INCREASE IN LIQUIDITY, DUE FOURTEENTH-MONTH SALARY PAYMENT, AND REACTION TO DEVALUATION RUMORS WHICH WE BELIEVE GOB CAN FOR NOW CONTROL. HOWEVER, THE PROSPECTIVE BUDGET DEFICIT AND POSSIBLE FURTHER UNCERTAINTIES ABOUT DEVALUATION COULD TRIGGER RECURRENCES OF PRICE PRESSURES AT ANY TIME OVER THE NEXT FIVE MONTHS.

5. WORLD PRICE INCREASES FOR CERTAIN AGRICULTURAL EXPORTS MAY BE CAUSING EXPORTERS TO WITHHOLD ITEMS FROM DOMESTIC MARKET IN ORDER TO OBTAIN MODIFICATIONS IN GOB-IMPOSED EXPORT QUOTAS WHICH WERE ESTABLISHED TO PROTECT DOMESTIC MARKET FROM WORLD MARKET PRICE CHANGES. IT IS BELIEVED THAT THIS FACTOR EXPLAINS RECENT SCARCITIES OF MEAT AND COFFEE IN LA PAZ MARKET.

6. THE PRESS HAS REPORTED THAT APPARENT PRICE PRESSURE AND COMMODITY SCARCITIES ARE NOT CONFINED TO LA PAZ, BUT MAY EXIST IN SANTA CRUZ, URURO AND OTHER CITIES.
BREWIN

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